



**Contract Year Ending 2020  
Arizona Long Term Care System/Elderly  
and Physical Disability Program Capitation  
Rate Certification**

**October 1, 2019 through October 31, 2019**

**Prepared for:  
The Centers for Medicare & Medicaid Services**

**Prepared by:  
AHCCCS Division of Health Care Management**

**October 19, 2020**



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## Introduction and Limitations

The purpose of this rate certification is to provide documentation, including the data, assumptions, and methodologies, used in a revision to the previously submitted October 1, 2019 through October 31, 2019, actuarially sound capitation rates for the Arizona Long Term Care System/Elderly and Physical Disability (ALTCS/EPD) Program for compliance with the applicable provisions of 42 CFR Part 438 of 81 FR 27497 (published May 6, 2016 and effective July 5, 2016). The revision reflects a retroactive adjustment to capitation rates that covers the ALTCS/EPD Contractors' Health Insurance Provider Fee (HIPF). There are no other changes to any data, assumptions, or methodologies used and provided in the prior actuarial rate certification signed August 15, 2019. This rate certification was prepared for the Centers for Medicare & Medicaid Services (CMS), or its actuaries, for review and approval of the actuarially sound certified capitation rates contained herein. This rate certification may not be appropriate for any other purpose. The actuarially sound capitation rates represent projections of future events. Actual results may vary from the projections.

This rate certification may also be made available publicly on the Arizona Health Care Cost Containment System (AHCCCS) website or distributed to other parties. If this rate certification is made available to third parties, then this rate certification should be provided in its entirety. Any third party reviewing this rate certification should be familiar with the AHCCCS Medicaid managed care program, the provisions of 42 CFR Part 438 of 81 FR 27497 applicable to this rate certification, the 2020 Medicaid Managed Care Rate Development Guide (2020 Guide), Actuarial Standards of Practice, and generally accepted actuarial principles and practices.

As of the date of signature of this certification, an uncertainty exists regarding the legal status of the HIPF, specifically to the liability of MCOs contracted with Medicaid programs. The certification, the methodology of development for the revision to the rates, and the actuarial soundness of the revised rates rely on AHCCCS' current understanding of the law. The capitation rates may, at some point in the future, be further revised as appropriate to reflect final clarification of the legality of the HIPF and its impact to AHCCCS Contractors.

The 2020 Guide describes the rate development standards and appropriate documentation to be included within Medicaid managed care rate certifications. This rate certification has been organized to follow the 2020 Guide to help facilitate the review of this rate certification by CMS.

## Section I Medicaid Managed Care Rates

The capitation rates included with this rate certification are considered actuarially sound according to the following criteria from 42 CFR § 438.4 at 81 FR 27858:

- § 438.4(a) Actuarially sound capitation rates defined. Actuarially sound capitation rates are projected to provide for all reasonable, appropriate, and attainable costs that are required under the terms of the contract and for the operation of the MCO, PIHP, or PAHP for the time period and the population covered under the terms of the contract, and such capitation rates are developed in accordance with the requirements in paragraph (b) of this section.
- § 438.4(b) CMS review and approval of actuarially sound capitation rates. Capitation rates for MCOs, PIHPs, and PAHPs must be reviewed and approved by CMS as actuarially sound. To be approved by CMS, capitation rates must:
  - § 438.4(b)(1) Have been developed in accordance with standards specified in § 438.5 and generally accepted actuarial principles and practices. Any proposed differences among capitation rates according to covered populations must be based on valid rate development standards and not based on the rate of Federal financial participation associated with the covered populations.
  - § 438.4(b)(2) Be appropriate for the populations to be covered and the services to be furnished under the contract.
  - § 438.4(b)(3) Be adequate to meet the requirements on MCOs, PIHPs, and PAHPs in §§ 438.206, 438.207, and 438.208.
  - § 438.4(b)(4) Be specific to payments for each rate cell under the contract.
  - § 438.4(b)(5) Payments from any rate cell must not cross-subsidize or be cross-subsidized by payments for any other rate cell.
  - § 438.4(b)(6) Be certified by an actuary as meeting the applicable requirements of this part, including that the rates have been developed in accordance with the requirements specified in § 438.3(c)(1)(ii) and (e).
  - § 438.4(b)(7) Meet any applicable special contract provisions as specified in § 438.6.
  - § 438.4(b)(8) Be provided to CMS in a format and within a timeframe that meets requirements in § 438.7.
  - § 438.4(b)(9) Be developed in such a way that the MCO, PIHP, or PAHP would reasonably achieve a medical loss ratio standard, as calculated under § 438.8, of at least 85 percent for the rate year. The capitation rates may be developed in such a way that the MCO, PIHP, or PAHP would reasonably achieve a medical loss ratio standard greater than 85 percent, as calculated under § 438.8, as long as the capitation rates are adequate for reasonable, appropriate, and attainable non-benefit costs.

Additionally, the term actuarially sound is defined in Actuarial Standard of Practice (ASOP) 49, “Medicaid Managed Care Capitation Rate Development and Certification,” as:

“Medicaid capitation rates are “actuarially sound” if, for business for which the certification is being prepared and for the period covered by the certification, projected capitation rates and other revenue sources provide for all reasonable, appropriate, and attainable costs. For purposes of this definition, other revenue sources include, but are not limited to, expected reinsurance and governmental stop-loss cash flows, governmental risk adjustment cash flows, and investment income. For purposes of this definition, costs include, but are not limited to, expected health benefits, health benefit settlement expenses, administrative expenses, the cost of capital, and government-mandated assessments, fees, and taxes.”

As stated on page 2 of the 2020 Guide, CMS will also use these three principles in applying the regulation standards:

- the capitation rates are reasonable and comply with all applicable laws (statutes and regulations) for Medicaid managed care;
- the rate development process complies with all applicable laws (statutes and regulations) for the Medicaid program, including but not limited to eligibility, benefits, financing, any applicable waiver or demonstration requirements, and program integrity; and
- the documentation is sufficient to demonstrate that the rate development process meets the requirements of 42 CFR Part 438 and generally accepted actuarial principles and practices.

## **I.1. General Information**

This section provides documentation for the General Information section of the 2020 Guide.

### **I.1.A. Rate Development Standards**

#### **I.1.A.i. Rating Period**

The revised capitation rates for the ALTCS/EPD Program are effective for the one month time period from October 1, 2019 through October 31, 2019.

#### **I.1.A.ii. Rate Certification Documentation**

This rate certification includes the following items and information:

##### **I.1.A.ii.(a) Letter from Certifying Actuary**

The actuarial certification letter for the October 2019 capitation rates for the ALTCS/EPD Program, signed by Mike Du, ASA, MAAA, is in Appendix 1. Mr. Du meets the requirements for the definition of an Actuary described at 42 CFR § 438.2 at 81 FR 27854 and is provided below for reference.

*Actuary* means an individual who meets the qualification standards established by the American Academy of Actuaries for an actuary and follows the practice standards established by the Actuarial Standards Board. In this part, Actuary refers to an individual who is acting on behalf of the State when used in reference to the development and certification of capitation rates.

Mr. Du certifies that the October 2019 capitation rates for the ALTCS/EPD Program contained in this rate certification are actuarially sound and meet the standards within the applicable provisions of 42 CFR Part 438 of 81 FR 27497.

##### **I.1.A.ii.(b) Final and Certified Capitation Rates**

The revised final and certified capitation rates by rate cell are located in Appendix 2. Additionally, the ALTCS/EPD Program contract includes the final and certified capitation rates by rate cell in accordance with 42 CFR § 438.3(c)(1)(i) at 81 FR 27856. The ALTCS/EPD contract uses the term risk group instead of rate cell. This rate certification will use the term rate cell to be consistent with the applicable provisions of 42 CFR Part 438 of 81 FR 27497 and the 2020 Guide. AHCCCS will perform a retroactive mass adjustment to the currently approved capitation rates for October 2019 using the revised capitation rates in Appendix 2. Although the fees due from the Contractor in 2020 are based on applicable revenue received during 2019, CMS authorized AHCCCS to make retroactive capitation adjustments to just one month in order to limit the administrative burden.

##### **I.1.A.ii.(c) Program Information**

For more information, please refer to the Contract Year Ending 2020 ALTCS/EPD Program Rate Certification dated August 15, 2019.

#### **I.1.A.iii. Rate Development Standards and Federal Financial Participation**

For more information, please refer to the Contract Year Ending 2020 ALTCS/EPD Program Rate Certification dated August 15, 2019.

#### **I.1.A.iv. Rate Cell Cross-subsidization**

For more information, please refer to the Contract Year Ending 2020 ALTCS/EPD Program Rate Certification dated August 15, 2019.

#### **I.1.A.v. Effective Dates of Changes**

For more information, please refer to the Contract Year Ending 2020 ALTCS/EPD Program Rate Certification dated August 15, 2019.

#### **I.1.A.vi. Minimum Medical Loss Ratio**

For more information, please refer to the Contract Year Ending 2020 ALTCS/EPD Program Rate Certification dated August 15, 2019.

#### **I.1.A.vii. Generally Accepted Actuarial Principles and Practices**

For more information, please refer to the Contract Year Ending 2020 ALTCS/EPD Program Rate Certification dated August 15, 2019.

#### **I.1.A.viii. Rates from Previous Rating Periods**

For more information, please refer to the Contract Year Ending 2020 ALTCS/EPD Program Rate Certification dated August 15, 2019.

#### **I.1.A.ix. Rate Certification Procedures**

For more information, please refer to the Contract Year Ending 2020 ALTCS/EPD Program Rate Certification dated August 15, 2019.

#### **I.1.B. Appropriate Documentation**

For more information, please refer to the Contract Year Ending 2020 ALTCS/EPD Program Rate Certification dated August 15, 2019.

### **I.2. Data**

For more information, please refer to the Contract Year Ending 2020 ALTCS/EPD Program Rate Certification dated August 15, 2019.

### **I.3. Projected Benefit Costs and Trends**

For more information, please refer to the Contract Year Ending 2020 ALTCS/EPD Program Rate Certification dated August 15, 2019.

### **I.4. Special Contract Provisions Related to Payment**

For more information, please refer to the Contract Year Ending 2020 ALTCS/EPD Program Rate Certification dated August 15, 2019.

## **I.5. Projected Non-Benefit Costs**

### **I.5.A. Rate Development Standards**

This section of the 2020 Guide provides information on the non-benefit component of the capitation rates.

### **I.5.B. Appropriate Documentation**

#### **I.5.B.i. Description of the Development of Projected Non-Benefit Costs**

For more information, please refer to the Contract Year Ending 2020 ALTCS/EPD Program Rate Certification dated August 15, 2019.

#### **I.5.B.ii. Projected Non-Benefit Costs by Category**

For more information, please refer to the Contract Year Ending 2020 ALTCS/EPD Program Rate Certification dated August 15, 2019.

#### **I.5.B.iii. Health Insurance Provider's Fee**

##### **I.5.B.iii.(a) Address if in Rates**

The CYE 20 capitation rates for the ALTCS/EPD Program reflected in this rate certification incorporate the Health Insurance Providers Fee (HIPF). AHCCCS is following previous ALTCS/EPD Program capitation rate methodologies for the HIPF, in which capitation rates are amended to reflect the calculated HIPF and related tax impacts. In revising the capitation rates for HIPF, all benefit and non-benefit components remain unchanged and as described in the CYE 2020 ALTCS/EPD Program rate certification dated August 15, 2019, and an additional component is added inclusive of the reported HIPF liability and associated taxes. The additional HIPF liability PMPM amounts, by rate cell, are given in appendix 4. Two Contractors, Banner-UFC and Mercy Care, do not have a HIPF liability, so no capitation rate adjustments are required for these Contractors.

##### **I.5.B.iii.(b) Data Year or Fee Year**

The data year is calendar year 2019 for the fee year 2020.

##### **I.5.B.iii.(c) Description of how Fee was Determined**

The PMPM capitation adjustments were developed based on the fee liability reported to AHCCCS by the ALTCS/EPD Contractors. Contractors were notified of the fee liability for the entire entity by the Treasury Department. Contractors were responsible for allocating an appropriate portion of their fee liability to AHCCCS, which was verified by AHCCCS for reasonableness and appropriateness. To determine if the reported revenue and the HIPF liability allocations to AHCCCS from the Contractors is reasonable and appropriate, AHCCCS reviewed each Contractor's HIPF liability allocated to AHCCCS as a percentage of the total HIPF liability from the IRS, and the revenue allocated to AHCCCS as a percentage of the total revenue reported to the IRS. Additionally, AHCCCS compared the revenue allocated to the ALTCS/EPD Program from each Contractor against paid capitation data and determined that the revenue allocated by Contractor to each AHCCCS program was reasonable and appropriate.

As in previous years, the PMPM adjustments were developed based on each Contractor's actual member months within each applicable rate cell. The estimated impact to the ALTCS/EPD Program of this adjustment is a statewide increase of approximately \$1.6 million.

**I.5.B.iii.(d) Address if not in Rates**

Not applicable. The revised CYE 20 ALTCS/EPD capitation rates include the fee.

**I.5.B.iii.(e) Summary of Benefits Under 26 CFR § 57.2(h)(2)(ix)**

For more information, please refer to the Contract Year Ending 2020 ALTCS/EPD Program Rate Certification dated August 15, 2019.

**I.5.B.iii.(f) Historical HIPF Fees in Capitation Rates**

For any HIPF that has been paid in 2014, 2015, 2016 and/or 2018, the HIPF has been included in the capitation rates as a retroactive amendment to the initially certified capitation rates.

**I.6. Risk Adjustment and Acuity Adjustments**

For more information, please refer to the Contract Year Ending 2020 ALTCS/EPD Program Rate Certification dated August 15, 2019.

## **Section II Medicaid Managed Care Rates with Long-Term Services and Supports**

For more information, please refer to the Contract Year Ending 2020 ALTCS/EPD Program Rate Certification dated August 15, 2019.

## **Section III New Adult Group Capitation Rates**

For more information, please refer to the Contract Year Ending 2020 ALTCS/EPD Program Rate Certification dated August 15, 2019.

## Appendix 1: Actuarial Certification

I, Mike Du, am an employee of Arizona Health Care Cost Containment System (AHCCCS). I am a Member of the American Academy of Actuaries and an Associate of the Society of Actuaries. I meet the qualification standards established by the American Academy of Actuaries and have followed the practice standards established the Actuarial Standards Board.

The capitation rates included with this rate certification are considered actuarially sound according to the following criteria from 42 CFR § 438.4 at 81 FR 27858:

- § 438.4(a) Actuarially sound capitation rates defined. Actuarially sound capitation rates are projected to provide for all reasonable, appropriate, and attainable costs that are required under the terms of the contract and for the operation of the MCO, PIHP, or PAHP for the time period and the population covered under the terms of the contract, and such capitation rates are developed in accordance with the requirements in paragraph (b) of this section.
- § 438.4(b) CMS review and approval of actuarially sound capitation rates. Capitation rates for MCOs, PIHPs, and PAHPs must be reviewed and approved by CMS as actuarially sound. To be approved by CMS, capitation rates must:
  - § 438.4(b)(1) Have been developed in accordance with standards specified in § 438.5 and generally accepted actuarial principles and practices. Any proposed differences among capitation rates according to covered populations must be based on valid rate development standards and not based on the rate of Federal financial participation associated with the covered populations.
  - § 438.4(b)(2) Be appropriate for the populations to be covered and the services to be furnished under the contract.
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  - § 438.4(b)(4) Be specific to payments for each rate cell under the contract.
  - § 438.4(b)(5) Payments from any rate cell must not cross-subsidize or be cross-subsidized by payments for any other rate cell.
  - § 438.4(b)(6) Be certified by an actuary as meeting the applicable requirements of this part, including that the rates have been developed in accordance with the requirements specified in § 438.3(c)(1)(ii) and (e).
  - § 438.4(b)(7) Meet any applicable special contract provisions as specified in § 438.6.
  - § 438.4(b)(8) Be provided to CMS in a format and within a timeframe that meets requirements in § 438.7.
  - § 438.4(b)(9) Be developed in such a way that the MCO, PIHP, or PAHP would reasonably achieve a medical loss ratio standard, as calculated under § 438.8, of at least 85 percent for the rate year. The capitation rates may be developed in such a way that the MCO, PIHP, or PAHP would reasonably achieve a medical loss ratio standard greater than 85 percent, as calculated under § 438.8, as long as the capitation rates are adequate for reasonable, appropriate, and attainable non-benefit costs.

Additionally, the term actuarially sound is Actuarial Standard of Practice (ASOP) 49, “Medicaid Managed Care Capitation Rate Development and Certification,” as:

“Medicaid capitation rates are “actuarially sound” if, for business for which the certification is being prepared and for the period covered by the certification, projected capitation rates and other revenue sources provide for all reasonable, appropriate, and attainable costs. For purposes of this definition, other revenue sources include, but are not limited to, expected reinsurance and governmental stop-loss cash flows, governmental risk adjustment cash flows, and investment income. For purposes of this definition, costs include, but are not limited to, expected health benefits, health benefit settlement expenses, administrative expenses, the cost of capital, and government-mandated assessments, fees, and taxes.”

The data, assumptions, and methodologies used to develop the revised CYE 20 capitation rates effective October 1, 2019 through October 31, 2019, for the ALTCS/EPD Program have been documented according to the guidelines established by CMS in the 2020 Guide.

The actuarially sound capitation rates are based on projections of future events. Actual results may vary from the projections. In developing the actuarially sound capitation rates, I have relied upon data and information provided by AHCCCS and the ALTCS/EPD contractors. I have relied upon AHCCCS and the ALTCS/EPD contractors for the accuracy of the data and I have accepted the data without audit, after checking the data for reasonableness and consistency.

SIGNATURE ON FILE

October 19, 2020

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Mike Du

Date

Associate, Society of Actuaries

Member, American Academy of Actuaries

## Appendix 2: Certified Capitation Rates with HIPF

Rate Cell	Contractor	GSA	Submitted Capitation Rate <sup>1</sup>	Revised Capitation Rate <sup>2</sup>	Percentage Impact
Dual	UHC-LTC	North	\$ 3,072.42	\$ 3,124.24	1.7%
Dual	Banner-UFC	South	\$ 3,622.56	\$ 3,622.56	0.0%
Dual	Mercy Care	South	\$ 3,378.06	\$ 3,378.06	0.0%
Dual	UHC-LTC	Central	\$ 2,966.04	\$ 3,036.05	2.4%
Dual	Banner-UFC	Central	\$ 3,823.61	\$ 3,823.61	0.0%
Dual	Mercy Care	Central	\$ 3,745.32	\$ 3,745.32	0.0%
Non-Dual	UHC-LTC	North	\$ 6,466.27	\$ 7,238.08	11.9%
Non-Dual	Banner-UFC	South	\$ 6,452.05	\$ 6,452.05	0.0%
Non-Dual	Mercy Care	South	\$ 7,141.60	\$ 7,141.60	0.0%
Non-Dual	UHC-LTC	Central	\$ 7,046.94	\$ 7,877.52	11.8%
Non-Dual	Banner-UFC	Central	\$ 7,792.47	\$ 7,792.47	0.0%
Non-Dual	Mercy Care	Central	\$ 7,775.25	\$ 7,775.25	0.0%

**Notes:**

1. The Submitted Capitation Rate represents the most recently submitted rates effective from October 1, 2019 through October 31, 2019, excluding the additional PMPM amount for the HIPF.
2. The Revised Capitation Rate represents the most recently submitted rates effective from October 1, 2019 through October 31, 2019, including the additional PMPM amount for the HIPF.

### Appendix 3: Fiscal Impact Summary with HIPF

Rate Cell	October 2019 Member Months	Submitted Capitation Rate <sup>1</sup>	Revised Capitation Rate <sup>2</sup>	PMPM Change
Dual	24,957	\$3,442.20	\$3,464.60	\$ 22.40
Non-Dual	4,812	\$7,325.60	\$7,551.62	\$226.02
<b>Total</b>	<b>29,769</b>	<b>\$4,069.95</b>	<b>\$4,125.26</b>	<b>\$ 55.32</b>

Rate Cell	October 2019 Projected Expenditures at Submitted Capitation Rates	October 2019 Projected Expenditures at Revised Capitation Rates	Dollar Impact	Percentage Impact
Dual	\$ 85,905,783	\$ 86,464,832	\$ 559,049	0.65%
Non-Dual	\$ 35,251,514	\$ 36,339,132	\$1,087,618	3.09%
<b>Total</b>	<b>\$121,157,297</b>	<b>\$122,803,964</b>	<b>\$1,646,667</b>	<b>1.36%</b>

**Notes:**

1. The Submitted Capitation Rate represents the most recently submitted rates effective from October 1, 2019 through October 31, 2019, excluding the additional PMPM amount for the HIPF.
2. The Revised Capitation Rate represents the most recently submitted rates effective from October 1, 2019 through October 31, 2019, including the additional PMPM amount for the HIPF.

## Appendix 4: Projected HIPF Amounts PMPM by Rate Cell

Rate Cell	Contractor	GSA	Submitted Capitation Rate <sup>1</sup>	HIPF Amount Including Taxes	Revised Capitation Rate <sup>2</sup>
Dual	UHC-LTC	North	\$3,072.42	\$ 51.82	\$3,124.24
Dual	Banner-UFC	South	\$3,622.56	-	\$3,622.56
Dual	Mercy Care	South	\$3,378.06	-	\$3,378.06
Dual	UHC-LTC	Central	\$2,966.04	\$ 70.01	\$3,036.05
Dual	Banner-UFC	Central	\$3,823.61	-	\$3,823.61
Dual	Mercy Care	Central	\$3,745.32	-	\$3,745.32
NonDual	UHC-LTC	North	\$6,466.27	\$771.81	\$7,238.08
NonDual	Banner-UFC	South	\$6,452.05	-	\$6,452.05
NonDual	Mercy Care	South	\$7,141.60	-	\$7,141.60
NonDual	UHC-LTC	Central	\$7,046.94	\$830.59	\$7,877.52
NonDual	Banner-UFC	Central	\$7,792.47	-	\$7,792.47
NonDual	Mercy Care	Central	\$7,775.25	-	\$7,775.25

**Notes:**

1. The Submitted Capitation Rate represents the most recently submitted rates effective from October 1, 2019 through October 31, 2019, excluding the additional PMPM amount for the HIPF.
2. The Revised Capitation Rate represents the most recently submitted rates effective from October 1, 2019 through October 31, 2019, including the additional PMPM amount for the HIPF.